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May 14, 2008

AGENDA ITEM 7a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Pharmacy Benefits Manager Contract Extension
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Staff recommends the Board approve extending the Medco Pharmacy Benefits Manager (PBM) contract to eighteen (18) months based on negotiated contract terms.

IV. BACKGROUND:

Medco provides PBM services to CalPERS Self-Funded Preferred Provider Organization (PPO) members. A three (3) year contract with Medco for PBM services began July 1, 2006 and expires June 30, 2009, with the option of two (2) one (1) year extensions. This contract began mid-term to accommodate the transition period required to move to a new PBM from the previous PBM, Caremark. Extending the contract eighteen (18) months will align the contract end date to be consistent with all other health care contract end dates (December 31).

Since July 1, 2006, Medco has consistently provided quality PBM services and innovative strategies to serve CalPERS members. Currently, the Medco contract covers approximately 316,000 member lives. The Medco contract has provided CalPERS significant cost savings primarily due to the 100% pass through of drug rebates.

V. ANALYSIS:

The current Medco PBM contract requires an annual Market/Price check be performed during the third quarter of each contract year. In April 2008, CalPERS contracted with Mercer to conduct the 2008 Medco PBM Market/Price Check. Mercer submitted the market check report results to CalPERS on April 18, 2008, CalPERS then shared the market check report with Medco. Mercer's proposed benchmark target terms in the market check report would yield a total savings of approximately 7.3% (approximately \$41 million) relative to projected PPO gross

plan costs under the current contract terms for the period July 1, 2008 through June 30, 2009.

The market check report provided CalPERS staff with a benchmark target for discussions with Medco. CalPERS received Medco's response to the Market check report. Medco submitted two pricing proposals with the following savings:

- On an eighteen (18) month or a twenty four (24) month contract extension, Medco projects annualized savings of approximately \$39.5 million
- On a six (6) month or a twelve (12) month contract extension, Medco projects annualized saving of approximately \$35.7 million, which represents an estimated difference of 0.9% of gross plan costs when compared to the Mercer Market Check of April 18, 2008.
- During the third quarter 2009, CalPERS will perform another Market/Price check and if the market check report results yields a difference greater than 1% CalPERS will consider revising pricing terms.

CalPERS has the opportunity to take advantage of significant cost savings and program opportunities, based on Medco's current offerings. The following chart illustrates the opportunities CalPERS has, based on the terms of the contract extension.

	Aggregate Annual Cost Savings		Market Check Adjustments			Program Opportunities		
	\$35.7M	\$39.5M	2008	2009	2010	New Customer Service Improvement Programs	New Customer Service Benchmarks	IVR Call Option Improvements
Contract Extension Options								
<i>If the contract is extended for.....</i>								
6 months, end date December 31, 2009	✓		✓	✓		✓	✓	✓
12 months, end date June 30, 2010	✓		✓	✓		✓	✓	✓
18 months, end date December 31, 2010		✓	✓	✓	✓	✓	✓	✓
24 months, end date June 30, 2011		✓	✓	✓	✓	✓	✓	✓

Program Opportunities

In addition to the plan savings, Medco has agreed to implement the following program improvements:

- Improvements to Customer Service call monitoring performance standards
- A pharmacist or pharmacy technician supervisor to support CalPERS Customer Service Unit to monitor and audit calls
- Medco will partner with CalPERS on ways to improve the member appeals process and make policy and procedure recommendations.
- Enhancements to CalPERS Interactive Voice Response system call options

Considerations

The following items are key factors influencing the recommendation to extend the current Medco contract eighteen (18) months:

- Realigning the end date of the PPO PBM contract to end December 31 is consistent with all other health plan end dates and will support a smoother transition of claims data and contract management
 - *Aligning the contract end date will improve PBM - Medicare Part D Centers for Medicare & Medicaid Services reporting (which are based on the standard calendar year)*
- An eighteen (18) month extension allots sufficient time to measure the success of new program implementations
- The request for proposal process requires eighteen (18) to twenty-four (24) months to complete.

VI. RECOMMENDATIONS

Staff recommends approving the request to extend the current Medco PBM contract for eighteen (18) months with the proposed offer. The contract extension will become effective July 1, 2009 and end on December 31, 2010.

VII. STRATEGIC PLAN:

This item supports strategic plan initiatives X and XII:

- “Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers”

- “Engage and influence the healthcare marketplace to provide medical care that optimizes quality, access, and cost.”

VIII. RESULTS/COSTS:

By extending the Medco contract by eighteen (18) months, CalPERS has the opportunity to provide significant savings to the PPO Self-funded plans.

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